

Apollo Medical Holdings, Inc.  
Form 10-Q  
December 10, 2010

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED October 31, 2010

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934

COMMISSION FILE NUMBER: 000-25809

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APOLLO MEDICAL HOLDINGS, INC.  
(Exact name of registrant as specified in its charter)

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Delaware  
(State or other jurisdiction of  
incorporation or organization)

20-8046599  
(I.R.S. Employer  
Identification Number)

450 N. Brand Blvd., Suite 600  
Glendale, California 91203  
(Address of principal executive offices)

(818) 396-8050  
Issuer's telephone number:

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(Former Name or Former Address, if Changed Since Last Report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes  No .

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): Yes  No

As of November 10, 2010, there were 27,635,774 shares of the registrant's common stock, \$0.001 par value per share, issued and outstanding.

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APOLLO MEDICAL HOLDINGS, INC.

INDEX TO FORM 10-Q FILING

FOR THE THREE AND NINE MONTHS ENDED OCTOBER 31, 2010 AND 2009

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APOLLO MEDICAL HOLDINGS, INC.  
CONSOLIDATED BALANCE SHEETS  
(UNAUDITED)

|   | October 31, 2010    | January 31, 2010    |
|---|---------------------|---------------------|
| <b>ASSETS</b>   |                     |                     |
| <b>CURRENT ASSETS</b>   |                     |                     |
| Cash and cash equivalents   | \$ 501,639          | \$ 665,737          |
| Accounts receivable, net  | 643,107             | 457,517             |
| Receivable from officers  | 8,616               | 23,483              |
| Due from affiliate  | 3,900               | 2,850               |
| Prepaid expenses  | 46,235              | 30,165              |
| Total current assets  | 1,203,497           | 1,179,752           |
| Deferred commission cost, net   | 85,938              | 114,063             |
| Property and equipment, net   | 7,865               | 11,627              |
| <b>TOTAL ASSETS</b>   | <b>\$ 1,297,300</b> | <b>\$ 1,305,442</b> |
| <b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>  |                     |                     |
| <b>CURRENT LIABILITIES:</b>   |                     |                     |
| Accounts payable and accrued liabilities  | \$ 150,116          | \$ 104,252          |
| Total current liabilities   | 150,116             | 104,252             |
| Convertible notes, net  | 1,248,186           | 1,247,582           |
| Total liabilities   | 1,398,302           | 1,351,834           |
| <b>STOCKHOLDERS' DEFICIT:</b>   |                     |                     |
| Preferred stock, par value \$0.001 ;<br>5,000,000 shares authorized; none issued  | -                   | -                   |
| Common Stock, par value \$0.001; 100,000,000 shares authorized,<br>27,635,774 and 27,041,328 shares issued and outstanding<br>as of October 31, 2010 and January 31, 2010 | 27,636              | 27,041              |
| Additional paid-in-capital  | 986,266             | 939,483             |
| Accumulated deficit   | (1,343,019)         | (1,241,031)         |
| Total   | (329,117)           | (274,507)           |
| Non-controlling interest  | 228,115             | 228,115             |
| Total stockholders' deficit   | (101,002)           | (46,392)            |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT</b>  | <b>\$ 1,297,300</b> | <b>\$ 1,305,442</b> |

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements

APOLLO MEDICAL HOLDINGS, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE THREE AND NINE MONTH PERIODS ENDED OCTOBER 31, 2010 AND 2009  
(UNAUDITED)

|  | For the Three Month Periods |             | For the Nine Month Periods |              |
|--|-----------------------------|-------------|----------------------------|--------------|
|  | Ended<br>October 31,        |             | Ended<br>October 31,       |              |
|  | 2010                        | 2009        | 2010                       | 2009         |
| NET REVENUE  | \$ 1,019,078                | \$ 616,975  | \$ 2,861,658               | \$ 1,699,100 |
| COST OF REVENUE  | 868,119                     | 455,183     | 2,407,524                  | 1,262,430    |
| GROSS PROFIT   | 150,959                     | 161,792     | 454,134                    | 436,670      |
| Operating expenses:  |                             |             |                            |              |
| General and administrative   | 152,013                     | 139,557     | 427,720                    | 434,225      |
| Depreciation   | 2,330                       | 9,622       | 8,330                      | 30,297       |
| Total operating expenses   | 154,343                     | 149,179     | 436,050                    | 464,522      |
| INCOME/(LOSS) FROM OPERATIONS  | (3,384)                     | 12,613      | 18,084                     | (27,852)     |
| OTHER INCOME/(EXPENSES):   |                             |             |                            |              |
| Interest expense   | (31,748)                    | (15,738)    | (94,736)                   | (25,546)     |
| Financing cost   | (9,375)                     | (25,000)    | (28,125)                   | (25,000)     |
| Other income   | 4,292                       | -           | 4,389                      | -            |
| Total other expenses   | (36,831)                    | (40,738)    | (118,472)                  | (50,546)     |
| LOSS BEFORE INCOME TAXES   | (40,215)                    | (28,125)    | (100,388)                  | (78,398)     |
| Provision for Income Tax   | 800                         | 800         | 1,600                      | 1,600        |
| NET LOSS   | \$ (41,015)                 | \$ (28,925) | \$ (101,988)               | \$ (79,998)  |
| WEIGHTED AVERAGE SHARES OF<br>COMMON STOCK OUTSTANDING,<br>BASIC AND DILUTED |                             |             |                            |              |
|  | 27,635,774                  | 26,805,493  | 27,370,367                 | 26,260,574   |
| *BASIC AND DILUTED NET LOSS PER<br>SHARE                                     | \$ (0.00)                   | \$ (0.00)   | \$ (0.00)                  | \$ (0.00)    |

\*Weighted average number of shares used to compute basic and diluted loss per share is the same since the effect of dilutive securities is anti-dilutive.

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements

APOLLO MEDICAL HOLDINGS, INC.  
CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE NINE MONTH PERIODS ENDED OCTOBER 31, 2010 AND 2009  
(UNAUDITED)

|   | Nine months ended October 31, |                   |
|---|-------------------------------|-------------------|
|   | 2010                          | 2009              |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                |                               |                   |
| Net loss  | \$ (101,988)                  | \$ (79,998)       |
| Adjustments to reconcile net loss to net cash used in operating activities: |                               |                   |
| Depreciation  | 8,330                         | 30,298            |
| Bad debt expense  | (76,231)                      | 4,954             |
| Issuance of shares for services   | 47,166                        | 101,455           |
| Warrant discount  | -                             | 9,642             |
| Amortization of deferred commission cost                                    | 28,125                        | -                 |
| Amortization of debt discount   | 604                           | -                 |
| Changes in assets and liabilities:  |                               |                   |
| Accounts receivable   | (109,361)                     | (165,874)         |
| Receivable from officers  | 14,867                        | -                 |
| Prepaid expenses  | (16,070)                      | (10,822)          |
| Prepaid commission  |                               | (123,438)         |
| Accounts payable and accrued liabilities                                    | 45,866                        | 46,458            |
| Net cash used in operating activities                                       | (158,691)                     | (187,326)         |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                |                               |                   |
| Property and equipment  | (4,568)                       | -                 |
| Due from related parties  | (1,050)                       | (800)             |
| Net cash used in operating activities                                       | (5,618)                       | (800)             |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                |                               |                   |
| Proceeds from issuance of shares  | 211                           | -                 |
| Payments of notes payable - related parties                                 | -                             | (75,000)          |
| Proceeds from convertible notes   | -                             | 1,240,358         |
| Payments of line of credit  | -                             | (198,000)         |
| Net cash provided by financing activities                                   | 211                           | 967,358           |
| <b>NET INCREASE/(DECREASE) IN CASH &amp; CASH EQUIVALENTS</b>               | <b>(164,098)</b>              | <b>779,233</b>    |
| <b>CASH &amp; CASH EQUIVALENTS, BEGINNING BALANCE</b>                       | <b>665,737</b>                | <b>84,161</b>     |
| <b>CASH &amp; CASH EQUIVALENTS, ENDING BALANCE</b>                          | <b>\$ 501,639</b>             | <b>\$ 863,394</b> |
| <b>SUPPLEMENTARY DISCLOSURES OF CASH FLOW INFORMATION</b>                   |                               |                   |
| Interest paid during the nine month period                                  | \$ 62,815                     | \$ 13,153         |
| Taxes paid during the nine month period                                     | \$ 1,600                      | \$ 1,600          |
| <b>SUPPLEMENTARY DISCLOSURES OF NON-CASH ITEMS</b>                          |                               |                   |
| Conversion of notes payable to equity                                       | \$ -                          | \$ 200,000        |

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements

APOLLO MEDICAL HOLDINGS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business

Apollo Medical Holdings, Inc. (“Apollo” or the “Company”) is a leading provider of hospitalist services in the Greater Los Angeles, California area. Hospitalist medicine is organized around the admission and care of patients in an inpatient facility such as a hospital or skilled nursing facility and is focused on providing, managing and coordinating the care of hospitalized patients. Apollo Medical Holdings, Inc. operates as a medical management holding company that focuses on managing the provision of hospital-based medicine through a wholly owned subsidiary-management company, Apollo Medical Management, Inc. (“AMM”). Through AMM, the Company manages affiliated medical groups, which presently consist of ApolloMed Hospitalists (“AMH”) and Apollo Medical Associates (“AMA”). AMM operates as a Physician Practice Management Company (“PPM”) and is in the business of providing management services to Physician Practice Companies (“PPC”) under Management Service Agreements.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared by Apollo in accordance with U.S. generally accepted accounting principles for interim financial statements. The statements consist solely of the management company, Apollo Medical Holdings, Inc. prior to August 1, 2008. Commencing with the Company’s third quarter on August 1, 2008, and concurrent with the execution of the Management Services Agreement, the statements reflect the consolidation of AMM and AMH, in accordance with EITF 97-2, Application of FASB Statement No. 94 and APB Opinion No. 16 to Physician Management Entities and Certain Other Entities with Contractual Management Agreements. In management’s opinion, all adjustments, consisting of normal recurring adjustments necessary for the fair presentation of the results of the interim periods are reflected herein. Operating results for the nine month period ended October 31, 2010 are not necessarily indicative of future financial results.

The condensed consolidated financial statements and notes are presented as permitted by Form 10-Q and do not contain all of the information that is included in the annual financial statements and notes of the Company. The condensed consolidated financial statements and notes presented herein should be read in conjunction with the financial statements and notes included in the Company’s Annual Report on Form 10-K for the year ended January 31, 2010.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Reclassification

Certain comparative amounts have been reclassified to conform to the nine month periods ended October 31, 2010 and 2009.

Fair Value of Financial Instruments



Statement of financial accounting standard No. 107(ASC 825), Disclosures about fair value of financial instruments, requires that the Company disclose estimated fair values of financial instruments. The carrying amounts reported in the statements of financial position for assets and liabilities qualifying as financial instruments are a reasonable estimate of fair value.

### Credit and Supply Risk

The Company's case rate and capitation revenues, reported by Apollo's affiliate, AMH, are governed by contractual agreements with medical groups/IPA's and hospitals. As a result, receivables from this business are generally fully collected. The Company does face issues related to the timing of these collections, and the Company must assess the level of earned, but uncollected revenue to which it is entitled at each period end. The Company does face collection issues with regard to its fee-for-service revenues. One is the estimation of the amount to be received from each billing since the Company invoices on a Medicare schedule and each of many providers remits payment on a reduced schedule. The Company has to estimate the amount it will ultimately receive from each billing and properly record revenue. One contract with our clients provides 34 percent of reported revenues.

## Recently Issued Accounting Pronouncements

In January 2010, FASB issued ASU No. 2010-06 – Improving Disclosures about Fair Value Measurements. This update provides amendments to Subtopic 820-10 that requires new disclosure as follows: 1) Transfers in and out of Levels 1 and 2. A reporting entity should disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. 2) Activity in Level 3 fair value measurements. In the reconciliation for fair value measurements using significant unobservable inputs (Level 3), a reporting entity should present separately information about purchases, sales, issuances, and settlements (that is, on a gross basis rather than as one net number). This update provides amendments to Subtopic 820-10 that clarifies existing disclosures as follows: 1) Level of disaggregation. A reporting entity should provide fair value measurement disclosures for each class of assets and liabilities. A class is often a subset of assets or liabilities within a line item in the statement of financial position. A reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities. 2) Disclosures about inputs and valuation techniques. A reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. Those disclosures are required for fair value measurements that fall in either Level 2 or Level 3. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. These disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The Company is currently evaluating the impact of this ASU, however, the Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

In April 2010, the FASB issued Accounting Standards Update 2010-13 (ASU 2010-13), "Compensation - Stock Compensation (Topic 718)." This Update provides amendments to Topic 718 to clarify that an employee share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity securities trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, an entity would not classify such an award as a liability if it otherwise qualifies as equity. The amendments in ASU 2010-13 are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. The provisions of ASU 2010-13 are not expected to have a material effect on the Company's consolidated financial statements.

In July 2010, the FASB issued an accounting update to provide guidance to enhance disclosures related to the credit quality of a company's financing receivables portfolio and the associated allowance for credit losses. Pursuant to this accounting update, a company is required to provide a greater level of disaggregated information about its allowance for credit loss with the objective of facilitating users' evaluation of the nature of credit risk inherent in the company's portfolio of financing receivables, how that risk is analyzed and assessed in arriving at the allowance for credit losses, and the changes and reasons for those changes in the allowance for credit losses. The revised disclosures as of the end of the reporting period are effective for the Company beginning in the second quarter of fiscal 2011, and the revised disclosures related to activities during the reporting period are effective for the Company beginning in the third quarter of fiscal 2011. The Company is currently evaluating the impact of this accounting update on its financial disclosures.

## Stock-based compensation

On October 17, 2006 the Company adopted SFAS No. 123R (ASC 718), "Share-Based Payment, an Amendment of FASB Statement No. 123." As of the date of this report the Company has no stock based incentive plan in effect.

### Basic and Diluted Earnings Per Share

Earnings per share is calculated in accordance with the Statement of financial accounting standards No. 128 (SFAS No. 128, ASC 260), "Earnings per share". SFAS No. 128 superseded Accounting Principles Board Opinion No.15 (APB 15). Net income (loss) per share for all periods presented has been restated to reflect the adoption of SFAS No. 128. Basic net income per share is based upon the weighted average number of common shares outstanding. Diluted net income (loss) per share is based on the assumption that all dilutive convertible shares and stock options were converted or exercised. Dilution is computed by applying the treasury stock method. Under this method, options and warrants are assumed to be exercised at the beginning of the period (or at the time of issuance, if later), and as if funds obtained thereby were used to purchase common stock at the average market price during the period.

### Cash and Cash Equivalents

Cash and cash equivalents at October 31, 2010 was \$501,639 and included cash in bank representing the Company's current operating account and \$489,459 in a brokerage money market account. The \$12,180 balance in the Company's operating account is insured by the FDIC.

### Revenue Recognition

The Company recognizes Case Rate, Hourly and Capitation revenue when persuasive evidence of an arrangement exists, service has been rendered, the service rate is fixed or determinable, and collection is reasonably assured. Fee for Service revenues are recorded at amounts reasonably assured to be collected. The determination of reasonably assured collections is based on historical Fee for Service collections as a percent of billings. The provisions are adjusted to reflect actual collections in subsequent periods.

The estimation and the reporting of patient responsibility revenues is highly subjective and depends on the payer mix, contractual reimbursement rates, collection experiences, judgment and other factors. The Company's fee arrangements are with various payers, including managed care organizations, hospitals, insurance companies, individuals, Medicare and Medicaid.

### 3. Uncertainty of ability to continue as a going concern

The Company's financial statements are prepared using the generally accepted accounting principles applicable to a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. However, the Company has an accumulated deficit of \$1,343,019 as of October 31, 2010. Net Cash Flow used by Operating Activities for the nine months ended October 31, 2010 was \$158,691.

The financial statements do not include any adjustments relating to the recoverability and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

To date the Company has funded its operations from both internally generated cash flow and external sources, and the proceeds available from the private placement provide funds for near-term operations and growth. The Company will pursue additional external capitalization opportunities, as necessary, to fund its long-term goals and objectives.

### 4. Accounts Receivable

Accounts receivable is stated at the amount management expects to collect from outstanding balances. An allowance for doubtful accounts is provided for those accounts receivable considered to be uncollectible, based upon historical experience and management's evaluation of outstanding accounts receivable at each quarter end. As of October 31,

2010, Accounts receivable totals \$643,107, net of a provision for bad debt expense of \$34,746, and represents amounts invoiced by AMH. Accounts receivable was \$457,517, net of the provision for bad debt expense of \$110,976, on January 31, 2010.

5. Other Receivables

Other receivables total \$8,616 at October 31, 2010 and \$23,483 January 31, 2010, respectively, and represent amounts due the Company from two officers. The balances were interest free, unsecured and due on demand.

## 6. Due from Affiliate

Due from affiliate totals \$3,900 and \$2,850 as of October 31, 2010 and January 31, 2010, respectively, and represents amounts due from AMA, an unconsolidated affiliate of the Company.

## 7. Prepaid Expenses

Prepaid expenses of \$46,235 and \$30,165 as of October 31, 2010 and January 31, 2010, respectively, are amounts prepaid for medical malpractice insurance and Director's and Officer's insurance.

## 8. Deferred Commission Cost

Deferred commission cost of \$85,938 on October 31, 2010 and \$114,063 as of January 31, 2010 represent the financing cost associated with 10% Senior Subordinated Callable Convertible Notes due January 31, 2013, \$125,000 paid by the Company on the closing of the placement on October 16, 2009 (see Note 11).

## 9. Property and Equipment

Property and equipment consists of the following as of :

|                               | October 31,<br>2010 | January 31,<br>2010 |
|-------------------------------|---------------------|---------------------|
| Website                       | \$ 4,568            | \$                  |
| Computers                     | 13,912              | 13,912              |
| Software                      | 138,443             | 138,443             |
| Machinery and equipment       | 50,815              | 50,815              |
| Gross Property and Equipment  | 207,738             | 203,170             |
| Less accumulated depreciation | (199,873)           | (191,543)           |
| Net Property and Equipment    | \$ 7,865            | \$ 11,627           |

The Company had no capital expenditures in the quarter ended October 31, 2010. Capital expenditures totaled \$4,568 at AMM in the quarter ended April 30, 2010 for the development of a Company web site.

Depreciation expense was \$2,330 and \$9,622 for the three month periods ended October 31, 2010 and 2009, respectively. Depreciation expense was \$8,330 and \$30,297 for the nine month periods ended October 31, 2010 and 2009, respectively.

## 10. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following as of:

|                                  | October 31,<br>2010 | January 31,<br>2010 |
|----------------------------------|---------------------|---------------------|
| Accounts payable                 | \$ 57,649           | \$ 32,460           |
| D&O insurance payable            | 18,956              | 8,210               |
| Accrued interest payable         | 31,250              |                     |
| Accrued professional fees        | 5,000               | 22,141              |
| Accrued payroll and income taxes | 37,261              | 41,441              |
| Total                            | \$ 150,116          | \$ 104,252          |

## 11. Long-term Debt

The Company's long-term debt consisted of the following at October 31, 2010 and January 31, 2010

|  | October 31,<br>2010 | January 30,<br>2010 |
|--|---------------------|---------------------|
| <b>Subordinated Borrowings:</b>                                |                     |                     |
| 10% Senior Subordinated Convertible Notes due January 31, 2013 | \$ 1,248,186        | \$ 1,247,582        |
| Total long-term debt   | \$ 1,248,186        | \$ 1,247,582        |
| Less: Current Portion  | -                   | -                   |
| Total  | \$ 1,248,186        | \$ 1,247,582        |

## Subordinated Borrowings

## 10% Senior Subordinated Callable Convertible Notes due January 31, 2013

On October 16, 2009, the Company issued \$1,250,000 of its 10% Senior Subordinated Callable Convertible Notes. The net proceeds of \$1,100,000 was used for the repayment of existing debt, acquisitions, physician recruitment and other general corporate purposes. The notes bear interest at a rate of 10% annually, payable semi annually on January 31 and July 31. The notes mature and become due and payable on January 31, 2013 and rank senior to all other unsecured debt of the Company.

The 10% Notes were sold through an agent in the form of a Unit. Each Unit was comprised of one 10% Senior Subordinated Callable Note with a par value \$25,000, and one five-year warrant to purchase 25,000 shares of the Company's common stock. The purchase price of each Unit was \$25,000, resulting in gross proceeds of \$1,250,000.

In connection with the placement of the subordinated notes, the Company paid a commission of \$125,000 and \$25,000 of other direct expenses. The agent also received five-year warrants to purchase up to 250,000 shares of the Common Stock at an initial exercise price of \$0.25 per share. The agent also received 100,000 shares of restricted common stock for pre-transaction advisory services and due diligence. The commission of \$125,000 paid at closing, is accounted for as prepaid financing cost and will be amortized over a forty-month period through January 31, 2013, the maturity date of the notes. The \$25,000 of other direct expenses were paid at closing and reported as financing costs in the Operating Statement in the year ended January 31, 2010. In addition, financing costs included \$4,000 related to the value of the 100,000 shares granted to the Placement Agent.

The 10% Notes are convertible any time prior to January 31, 2013. The initial conversion rate is 200,000 shares of the Company's common stock per \$25,000 principal amount of the 10% Notes (Subject to certain events). This represents an initial conversion price of \$0.125 per share of the Company's common stock.

On or after January 31, 2012, the Company may, at its option, upon 60 days notice to both the Note-holders and the placement agent, redeem all or a portion of the notes at a redemption price in cash equal to 102% of the principal amount of the notes to be redeemed plus accrued and unpaid interest to, but excluding, the redemption date.

The Warrants attached to the Units are exercisable into shares of Common Stock at an initial exercise price of \$0.125. The Warrants have a five-year term and expire on October 31, 2014. These warrants were estimated to have a fair value of \$2,653 using the Black-Scholes pricing model which was recorded as unamortized warrant discount on granted date and \$1,814 as of October 31, 2010.

In connection with this offering, the Company also issued warrants to purchase 250,000 shares of our common stock to the placement agent which were estimated to have a fair value of \$2,200 using the Black-Scholes pricing model and was recorded as unamortized warrant discount on granted date. These warrants have an exercise price of \$0.25 per share, are exercisable immediately upon issuance and expire five years after the date of issuance.

The Company recorded interest expense of \$ 31,250 and \$93,750 related to these notes for the three months and nine months ended October 31, 2010, respectively. Interest expense related to these notes was \$9,889 in the quarter and nine months ended October 31, 2009. In addition, the Company recorded \$25,000 of non-accountable expenses related to this subordinated transaction in October 2009.

## 12. Related Party Transactions

During the nine months ended October 31, 2010 and 2009, the Company generated revenue of \$497,000 and \$303,135, respectively, by providing management services to ApolloMed Hospitalists (AMH), an affiliated company with common ownership interest. Commencing August 1, 2008, the management services fee income reported by AMM was eliminated in consolidation against similar costs recorded at AMH.

## 13. Non-Controlling Interest

The Company recorded AMH ownership interest in the accompanying financial statements as non-controlling interest of \$228,115 at October 31, 2010 and January 31, 2010.

## 14 Stockholder's Equity

No shares were issued by the Company in the quarter ended October 31, 2010. Common shares outstanding totaled 27,635,774 at October 31, 2010, unchanged from July 31, 2010.



In the second quarter ended July 31, 2010, the Company issued 211,113 common shares to Suresh Nihalani, a Director, under an amendment to his Board of Director's Agreement dated October 27, 2008, which brought the total outstanding shares to 27,635,774 at July 31, 2010. (see Note 15) The Company recorded an expense of \$17,100 on shares issued for the period ended July 31, 2010.

In the first quarter ended April 30, 2010, the Company issued 383,333 common shares. A total of 350,000 shares were issued to Kanehoe Advisors and 33,333 shares were issued to Suresh Nihalani, a director. The total shares of 383,333 were valued at \$30,066 based on the fair value of shares at issuance dates.

The Company issued a total of 1,171,108 common shares in the twelve months ended January 31, 2010, including 266,665 shares in the second quarter ended July 31, 2009, 826,666 shares in the third quarter ended October 31, 2009, and 77,777 shares in the fourth quarter ended January 31, 2010. The 266,665 shares were issued on May 14, 2009 to nine holders of convertible notes that had exercised their conversion rights. Of the 826,666 shares, 716,666 were issued to officers and directors, 100,000 shares were issued to the Placement Agent for advisory services and 10,000 shares were issued to an employee. The 77,777 shares issued in the fourth quarter were to Suresh Nihalani, a Director of the Company.

Warrants outstanding:

No warrants were issued by the Company in the nine months ended October 31, 2010.

|                                 | Aggregate<br>intrinsic value | Number of<br>warrants |
|---------------------------------|------------------------------|-----------------------|
| Outstanding at January 31, 2010 | \$ —                         | 2,125,803             |
| Granted                         | —                            | -                     |
| Exercised                       | —                            | —                     |
| Lapsed                          | —                            | 165,620               |
| Outstanding at October 31, 2010 | \$ —                         | 1,960,183             |

| Exercise Price | Warrants<br>outstanding | Weighted<br>average<br>contractual life | Warrants<br>exercisable | Weighted<br>average<br>exercise price |
|----------------|-------------------------|---|-------------------------|---------------------------------------|
| \$ 1.100       | 304,850                 | 0.25                                    | 304,850                 | \$ 1.10                               |
| \$ 1.500       | 155,333                 | 0.99                                    | 155,333                 | \$ 1.50                               |
| \$ 0.250       | 1,250,000               | 4.00                                    | 1,250,000               | \$ 0.25                               |
| \$ 0.250       | 250,000                 | 4.00                                    | 250,000                 | \$ 0.25                               |

#### 15. Commitments and Contingency

On March 15, 2009, the Company entered into a Consulting Agreement with Kaneohe Advisors LLC (Kyle Francis) under which Mr. Francis would become the Company's Executive Vice President, Business Development and Strategy. Under the terms of the Agreement, Mr. Francis will be paid \$8,000 per month. In addition, Mr. Francis received 350,000 shares of restricted stock at the date of the Agreement and is entitled to 350,000 additional restricted shares on the first and second anniversaries of the Agreement, provided the Agreement is not terminated. The initial 350,000 shares, along with 50,000 shares granted to Mr. Francis in the year ended January 2009, were issued in the third quarter ended October 31, 2009. On March 15, 2010, the first anniversary of the Consulting Agreement, Mr. Francis was granted an additional 350,000 shares (see Note 14).

On October 27, 2008, the Company entered into a Board of Director's Agreement with Suresh Nihalani, under which the Company agreed to issue a stock award of 400,000 shares to Mr. Nihalani. Under the terms of the Director's Agreement, these shares will be issued ratably over a thirty-six month period commencing December 2008. The shares will be released to Mr. Nihalani on a monthly basis during his tenure as a Director. The distribution of shares will continue as long as Mr. Nihalani serves on the Board, but will cease when Mr. Nihalani is no longer a Director. Mr. Nihalani was issued 188,887 shares under this Director's Agreement through April 30, 2010 (see Note 14).

On July 16, 2010, the Company and Mr. Nihalani agreed to amend the October 27, 2008 Director's Agreement, whereby the Company issued 211,113 shares of Common Stock to Mr. Nihalani. These 211,113 shares represented the balance of the shares due Mr. Nihalani under his agreement and brought the total shares held by Suresh Nihalani to 400,000 common shares. Under the Amendment, the Company has the right to repurchase shares in the event that Mr. Nihalani fails to serve as a Director through November 30, 2011.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following management's discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements and the notes thereto included in this Quarterly Report. In addition, reference is made to our audited consolidated financial statements and notes thereto and related Management's Discussion and Analysis of Financial Condition and Results of Operations included in our most recent Annual Report on Form 10-K for the year ended January 31, 2009, filed with the Securities and Exchange Commission (SEC) on May 18, 2009.

In this Quarterly Report, unless otherwise expressly stated or the context otherwise requires, "Apollo," "we," "us" and "our" refer to Apollo Medical Holdings, Inc., a Delaware corporation, and its wholly-owned subsidiary-management company, Apollo Medical management, Inc., and affiliated medical groups. Our affiliated professional organizations are separate legal entities that provide physician services in California and with which we have management agreements. For financial reporting purposes we consolidate the revenues and expenses of all our practice groups that we own or manage because we have a controlling financial interest in these practices based on applicable accounting rules and as described in our accompanying financial statements. Also, unless otherwise expressly stated or the context otherwise requires, "our affiliated hospitalists" refer to physicians employed or contracted by either our wholly-owned subsidiaries or our affiliated professional organizations. References to "practices" or "practice groups" refer to our subsidiary-management company and the affiliated professional organizations of Apollo that provide medical services, unless otherwise expressly stated or the context otherwise requires.

The following discussion contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 regarding future events and the future results of Apollo that are based on management's current expectations, estimates, projections, and assumptions about our business. Words such as "may," "will," "could," "should," "target," "potential," "project," "expects," "anticipates," "intends," "plans," "believes," "sees," "estimates" and variations of such similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements due to numerous factors, including, but not limited to, those discussed in our most recent Annual Report on Form 10-K, including the section entitled "Risk Factors", as well as those discussed from time to time in the Company's other SEC filings and reports. In addition, such statements could be affected by general industry and market conditions. Such forward-looking statements speak only as of the date of this Quarterly Report or, in the case of any document incorporated by reference, the date of that document, and we do not undertake any obligation to update any forward-looking statement to reflect events or circumstances after the date of this Report, or for changes made to this document by wire services or Internet service providers. If we update or correct one or more forward-looking statements, investors and others should not conclude that we will make additional updates or corrections with respect to other forward-looking statements.

### Overview

We are a leading provider of hospitalist services in the Greater Los Angeles, California area. Hospitalist medicine is organized around the admission and care of patients in an inpatient facility such as a hospital or skilled nursing facility and is focused on providing, managing and coordinating the care of hospitalized patients.

To date the Company has funded its operations from both internally generated cash flow and external sources, and the proceeds available from the private placement provide funds for near-term operations and growth. The Company will pursue additional external capitalization opportunities, as necessary, to fund its long-term goals and objectives.



## Results of Operations and Operating Data

### Three Months Ended October 31, 2010 vs. Three Months Ended October 31, 2009

Apollo reported net revenues of \$1,019,078 for the three months ended October 31, 2010, compared to net revenues of \$616,975 for the comparable three month period ended October 31 2009. The revenue increase of \$402,103, or 65%, was attributable to new hospital contracts, increased same-market area growth and expansion of services with existing medical group clients at new hospitals. Net revenues are comprised of net billings by AMH under the various fee structures from health plans, medical groups/IPA's and hospitals, and income from service fee agreements.

Physician practice salaries, benefits and other expenses for the three months ended October 31, 2010 totaled \$868,119 and represented 85% of net revenues, compared to \$455,183 for the three months ended October 31, 2009, at 74% of net revenues. Cost of services includes the payroll and consulting costs of the physicians, all payroll related costs, costs for all medical malpractice insurance and physician privileges. The increase in cost of services were attributable to increased physician costs associated with new contracts and expansion of services at new hospitals in the quarter.

General and administrative expenses include all salaries, benefits, supplies and operating expenses, not specifically related to the day-to-day operations of our physician group practices, including billing and collections functions, and our corporate management and overhead. General and administrative expenses totaled \$152,013, at 15% of net revenues, for the three months ended October 31, 2010, higher by \$12,456 compared to General and administrative expenses of \$139,557 in the three months ended October 31, 2009, at 23% of net revenues. In the third quarter of 2010, the Company recorded bad debt expense of \$17,208 compared to bad debt expense of \$2,701 in the third quarter of 2009. In addition, the Company incurred increased rent, salaries, consulting and accounting fees in the third quarter just ended compared to the third quarter of 2009, Legal fees declined to \$688 in the quarter just ended from \$18,635 in the third quarter of 2009.

Depreciation and amortization expense was \$2,330 for the three months ended October 31, 2010, and \$9,622 for the comparable three-month period in 2009.

The Company reported a loss from operations of \$3,384 in the three months ended October 31, 2010, compared to a profit from operations of \$12,613 recorded in the same period of 2009. Although net revenues in 2010 continued to increase as a result of the addition of contracts with hospitals and the hiring of several additional physicians, the higher cost of services as a percent of revenue, 85% in the quarter just ended versus 74% in the third quarter of 2009, impeded the operating results.

Interest expense and amortization of financing costs totaled \$41,123 for the three months ended October 31, 2010, compared to interest and financing costs of \$40,738 in the three months ended October 31, 2009. Interest expense and financing costs in 2010 included interest on the subordinated borrowings of \$31,250, and the amortization of financing costs of \$9,375, related to these notes. Interest expense and financing costs in the three months ended October 31, 2009 of \$40,738 represents interest expense paid on the SBA loan with Wells Fargo Bank, interest expense on convertible notes and interest expense accrued at AMM for related party notes. Direct costs of \$25,000, incurred on the completion of the 10 % Subordinated Convertible Notes and paid at closing in October 2009, were reported as financing costs (See Note 11).

A net loss of \$41,015 was reported for the three months ended October 31, 2010, compared to a net loss of \$28,925 for the three months ended October 31, 2009. The factors contributing to the net loss in the current quarter compared to the net income in the quarter ended October 2009 are discussed above.



Nine Months Ended October 31, 2010 vs. Nine Months Ended October 31, 2009

Net revenues for the nine months ended October 31, 2010 of \$2,861,658 increased \$1,162,558, or 68 percent, over net revenues of \$1,699,100 reported for the nine months ended October 31, 2009. Net revenues are comprised of net billings by AMH under the various fee structures from health plans, medical groups/IPA's and hospitals, and income from service fee agreements. The increase was attributable to new hospital contracts, increased same-market area growth and expansion of services with existing medical group clients at new hospitals.

Physician practice salaries, benefits and other expenses for the nine months ended October 31, 2010 were \$2,407,524, at 84% of net revenues, compared to \$1,262,430, at 74% of net revenues, for the nine months ended October 31, 2009. Cost of services includes the payroll and consulting costs of the physicians, all payroll related costs, costs for all medical malpractice insurance and physician privileges. The increase in physician costs was attributable to start-up losses on new hospital contracts and expansions of services at new hospitals in the quarter.

General and administrative expenses include all salaries, benefits, supplies and operating expenses, not specifically related to the day-to-day operations of our physician group practices, including billing and collections functions, and our corporate management and overhead. General and administrative expenses were \$427,720, at 15% of net revenues, for the nine months ended October 31, 2010. General and administrative expenses were \$434,225 for the nine months ended October 31, 2009, at 26% of net revenues. In the nine months ended October 2010, the Company recorded non-cash compensation expenses of \$47,166, related to the issuance of shares for service, lower than the \$101,455 of such non-cash costs in the first nine months of 2009. Also, the Company recorded a reduction in bad debt expense of \$17,739 in the nine month period ended October 2010, compared to a bad debt expense of \$4,953 in the same nine month period ended October 2009. The Company incurred higher rent, consulting fees and staff salaries which partially offset the above two favorable factors.

Depreciation and amortization expense was \$8,330 for the nine months ended October 31, 2010, and \$30,297 for the comparable nine-month period in 2009.

The Company reported a profit from operations of \$18,084 for the nine months ended October 31, 2010, compared to a loss from operations of \$27,852 recorded in the same period of 2009. Net revenues in 2010 continued to benefit from the addition of contracts with hospitals and the hiring of several additional physicians. In addition, the operating profit in 2010 benefitted from the lower non-cash compensation costs and a favorable adjustment to bad debt expense.

Interest expense and the amortization of financing costs totaled \$122,861 for the nine months ended October 31, 2010, compared to interest and financing costs of \$50,546 in the nine months ended October 31, 2009. Interest expense and financing costs in 2010 included interest of \$93,750 on the subordinated borrowings, and the amortization of financing costs of \$28,125, related to these notes. Interest expense in the nine months ended October 31, 2009 of \$50,546 included interest on the convertible notes, interest expense paid on the SBA loan with Wells Fargo Bank, and interest expense accrued at AMM for the related party notes. In addition, direct costs of \$25,000, incurred on the completion of the 10 % Subordinated Convertible Notes and paid at closing in October 2009, were reported as financing costs (See Note 11).

Apollo reported a net loss of \$101,988 for the nine months ended October 31, 2010, compared to a net loss of \$79,998 for the nine months ended October 31, 2009. The reduction in the net loss was the result of the factors discussed above.

Liquidity and Capital Resources

At October 31, 2010, the Company had cash and cash equivalents of \$501,639, compared to cash and cash equivalents of \$665,737 at January 31, 2010. The cash balance at October 31, 2010 included \$489,459 in a money market brokerage account. There were no short-term borrowings at October 31, 2010 or January 31, 2010. Long-term borrowings totaled \$1,248,186 as of October 31, 2010 and \$1,247,582 on January 31, 2010.



Net cash used in operating activities totaled \$158,691 in the nine months ended October 31, 2010, compared to net cash used in operations of \$187,326 for the comparable nine months ended October 31, 2009. The absence of prepaid commissions, incurred last year, coupled with the smaller decrease in accounts receivable, were the primary factors for the improvement in the net cash used in operating activities from 2009 to 2010.

Net cash used in operating activities for the nine months ended October 31, 2010 of \$158,691 was comprised of a net loss of \$101,988 for the nine month period. Adjustments for non-cash charges which include depreciation, bad debt expense, shares issued for service and amortization of commission cost and debt discount, provided \$7,994. In addition, net changes in operating assets and liabilities used cash of \$64,698.

The Company invested \$4,568 to develop a web site and a \$1,050 advance to an affiliated Company during the nine months ended October 2010. During the nine months ended October 2009, an advance of \$800 was made to this affiliated Company.

For the nine months ended October 31, 2010, the Company received \$211 from the issuance of shares to a director under financing activities. In the nine months ended October 2009, net cash provided by financing activities totaled \$967,358 and consisted of \$1,240,358 net proceeds from the issuance of the Subordinated Convertible Notes, partially offset by principal pay downs on notes payable to related parties of \$75,000 and the payoff of borrowings on the Company's SBA loan with Wells Fargo Bank of \$198,000.

#### Credit Facility and Liquidity

The Company's Business Line with Wells Fargo Bank provides a revolving line of credit of \$70,000, and is linked to the AMH bank account. The line can be used for short-term working capital needs and provides overdraft protection. The line cannot be used for letters of credit. There were no borrowings under this facility during the nine months ended October 31, 2010.

We continue to search for investment opportunities and anticipate that funds generated from operations, together with our current cash on hand and funds available under our revolving credit agreement will be sufficient to finance our working capital requirements and fund anticipated acquisitions, contingent acquisition consideration and capital expenditures.

#### Off Balance Sheet Arrangements

As of October 31, 2010, we had no off-balance sheet arrangements.

#### Recently Adopted and New Accounting Pronouncements

See Note 2 to the Condensed Consolidated Financial Statements for information regarding recently adopted and new accounting pronouncements.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company does not hold any derivative instruments and does not engage in any hedging activities.

### ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures.

In connection with the preparation of this Quarterly Report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Principal Financial and Accounting Officer, of the effectiveness of our disclosure controls and procedures, as of October 31, 2010, in accordance with Rules 13a-15(b) and 15d-15(b) of the Exchange Act.

Based on that evaluation, our Chief Executive Officer and Principal Financial and Accounting Officer have concluded that our disclosure controls and procedures were not effective as of October 31, 2010.

We have identified the following three material weaknesses in our disclosure controls and procedures:

1. We do not have written documentation of our internal control policies and procedures. Written documentation of key internal controls over financial reporting is a requirement of Section 404 of the Sarbanes-Oxley Act. Management evaluated the impact of our failure to have written documentation of our internal controls and procedures on our assessment of our disclosure controls and procedures, and concluded that the control deficiency that resulted represented a material weakness.
2. We do not have sufficient segregation of duties within accounting functions, which is a basic internal control. Due to our size and nature, segregation of all conflicting duties may not always be possible and may not be economically feasible. However, to the extent possible, the initiation of transactions, the custody of assets and the recording of transactions should be performed by separate individuals. Management evaluated the impact of our failure to have segregation of duties on our assessment of our disclosure controls and procedures, and concluded that the control deficiency that resulted represented a material weakness.
3. We do not have review and supervision procedures for financial reporting functions. The review and supervision function of internal control relates to the accuracy of financial information reported. The failure to review and supervise could allow the reporting of inaccurate or incomplete financial information. Due to our size and nature, review and supervision may not always be possible or economically feasible. Management evaluated the impact of our significant number of audit adjustments, and concluded that the control deficiency that resulted represented a material weakness.

Based on the foregoing materials weaknesses, we have determined that, as of October 31, 2010, our disclosure controls and procedures are insufficient. The Company continues to take steps to improve the timeliness and accuracy of its financial information, including the hiring of additional employees to facilitate proper segregation of duties. Our management is responsible for establishing and maintaining adequate disclosure controls and procedures, as defined in Rule 15d-15(e) under the Exchange Act, and for assessing the effectiveness of our disclosure controls and procedures. It should be noted that any system of controls and procedures, however well designed and operated, can provide only reasonable and not absolute assurance that the objectives of the system are met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of certain events. Because of these and other inherent limitations of control systems, there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. Therefore, even those systems determined to be effective can only provide reasonable assurance of achieving their control objectives.



### Changes in Internal Controls over Financial Reporting

There has been no change in our internal control over financial reporting during our most recently completed fiscal quarter (i.e., the nine-month period ended October 31, 2010) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II – OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

The Company is not a party to any litigation and, to its knowledge, no action, suit or proceeding has been threatened against the company.

ITEM 1A. Not Applicable

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

### ITEM 5. OTHER INFORMATION

None

### ITEM 6. EXHIBITS

| Exhibit Number | Description  |
|----------------|--|
| 31.1           | Certification by Chief Executive Officer, required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act.  |
| 31.2           | Certification by Chief Financial Officer, required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act.  |
| 32.1           | Certification by Chief Executive Officer, required by Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code. |
| 32.2           | Certification by Chief Financial Officer, required by Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code. |



SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

APOLLO MEDICAL HOLDINGS, INC.

Dated: December 10, 2010

By: /s/ Warren Hosseinion  
Warren Hosseinion  
Chief Executive Officer and Director

Dated: December 10, 2010

By: /s/ A. Noel DeWinter  
A. Noel DeWinter  
Chief Financial Officer and Principal  
Accounting Officer